

CONFORMED COPY

CREDIT NUMBER 3053 IN

Project Agreement

(Kerala Forestry Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

STATE OF KERALA

Dated August 13, 1998

CREDIT NUMBER 3053 IN

PROJECT AGREEMENT

AGREEMENT, dated August 13, 1998, between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and the STATE OF KERALA (Kerala), acting by its Governor.

WHEREAS (A) The Association has received a letter dated January 7, 1998, from the State of Kerala describing sector reforms that constitute the framework for improving the forestry sector in Kerala, including policy, institutional and administrative reforms (hereinafter called the Policy Reform Program), and declaring Kerala's commitment to carry out such Policy Reform Program;

(B) by the Development Credit Agreement of even date herewith between India (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to twenty-eight million eight hundred thousand Special Drawing Rights (SDR 28,800,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Kerala agree to undertake such obligations toward the Association as are set forth in the Development Credit Agreement and in this Agreement;

(C) the Project will be carried out by the State of Kerala with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Kerala the proceeds of the Credit as provided in the Development Credit Agreement; and

WHEREAS Kerala, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

#### ARTICLE II

##### Execution of the Project

Section 2.01. (a) Kerala declares its commitment to the objective of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project through KFD, with due diligence and efficiency and in conformity with appropriate administrative, financial, forestry and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and Kerala shall otherwise agree, Kerala shall carry out the Project in accordance with the Project Implementation Plan, and the Implementation Program set forth in Schedule 1 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to this Agreement.

Section 2.03. Kerala shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement.

Section 2.04. (a) Kerala shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Credit.

(b) Kerala shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by Kerala of its obligations under this Agreement.

Section 2.05. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, Kerala shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between Kerala and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with Kerala on such plan.

#### ARTICLE III

##### Financial Covenants

Section 3.01. (a) Kerala shall maintain records and accounts adequate to reflect

in accordance with sound accounting practices the operations, resources and expenditures, in respect of the Project, of the departments or agencies of Kerala responsible for carrying out the Project or any part thereof.

(b) Kerala shall:

(i) have the records and accounts referred to in paragraph (a) of this Section audited for each fiscal year in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Association shall from time to time reasonably request.

Section 3.02. Kerala shall establish not later than March 31, 1999, a financial management system for Project accounting, with specifications and output satisfactory to the Association.

#### ARTICLE IV

##### Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of Kerala thereunder shall terminate on the earlier of the following two dates:

(i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or

(ii) the date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify Kerala of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE V

##### Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex, or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433

United States of America

Cable address:

INDEVAS  
Washington, DC

Telex:

248423 (MCI)  
64145 (MCI)

For Kerala:

Chief Secretary  
Government of Kerala  
Trivandrum  
Kerala, India

Telex:

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Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Kerala may be taken or executed by the Chief Secretary of Kerala or such other person or persons as Kerala shall designate in writing, and Kerala shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in New Delhi, India, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edwin R. Lim

Country Director,  
India

STATE OF KERALA

By /s/ Lizzie Jacob

Authorized Representative

SCHEDULE 1

Implementation Program

1. Kerala shall prepare, not later than December 31 of each year, starting 1998, an annual implementation program, satisfactory to the Association, for the Project activities.
2. Kerala shall, not later than December 31, 1998, revise its Forest Schedule of Rates keeping in view the prevailing market wage rates to make payments to the labor hired for all field forestry operations.
3. Kerala shall, not later than December 31, 1999, complete the Forest Sector Management Study under Part A 1 (b) of the Project, and not later than June 30, 2000,

furnish to the Association a time-based plan, satisfactory to the Association, for implementation of the agreed recommendations of the study.

4. Kerala shall, not later than June 30, 2000, prepare and review with the Association the human resources development plan under Part A 1 (c) of the Project, linked to the proposed changes recommended by the Forest Sector Management Study referred to in paragraph 3 above, and shall, not later than December 31, 2000, initiate implementation of the agreed plan.

5. Kerala shall submit to the Association, for the Association's review and comments, prior to implementation and not later than September 30, 1998, the first three (i) microplans for participatory forest management under Part B 2 of the Project, and (ii) village ecocodevelopment microplans under Part C 4 of the Project.

6. Kerala shall ensure that area-associated investments are only carried out after finalization of the respective (i) site specific plans for natural forest treatments and industrial plantation treatments under Parts B 1 and B 3 of the Project, (ii) village microplans for the participatory forest management program under Part B 2 of the Project, and (iii) village microplans for the village ecocodevelopment program under Part C 4 of the Project.

7. Kerala shall (i) select the treatment sites under Parts B 1 and B 3 of the Project in accordance with criteria agreed with the Association, and (ii) develop the industrial plantations under Part B 3 of the Project using improved planting materials, silvicultural practices and protection satisfactory to the Association.

8. Kerala shall take all the necessary measures to abolish the subsidies for supply of pulp raw materials to forest industries by 20% every year, starting September 1, 1999, in accordance with a formula agreed with the Association.

9. Kerala shall (i) carry out the applied forestry research under Part B 4 (d) of the Project based on a strategic plan to be furnished to, and agreed with, the Association not later than November 30, 1999, and (ii) designate not later than December 31, 1999, research oriented staff for assisting in carrying out such research.

10. Kerala shall take all the necessary measures to promote tree planting on public lands under Part B 5 (b) of the Project.

11. Kerala shall ensure that adequate operational funds are made available to the Kalady Forestry Study Center on a timely basis, upon completion of its expansion and rehabilitation under Part B 5 (d) of the Project.

12. Kerala shall (i) select the staff for overseas training in consultation with the Association, and (ii) post such staff upon completion of the training for at least three years in areas in which training was received.

13. Kerala shall, without limitation to the provisions of Section 2.01 of this Agreement, implement a system satisfactory to the Association for channeling the funds required for the Project, to the entities involved in carrying out the Project.

14. Kerala shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objective thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association on or about September 30, 2000, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the period following such date; and

(c) review with the Association, by December 31, 2000 or such later date as

the Association shall request, the report referred to in paragraph (b) of this Section, and thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

15. Kerala shall appoint a finance systems designer, a procurement agent, and a manager for forest management information system for the Project Cell, all with qualifications and experience satisfactory to the Association, and shall retain until completion of the Project the latter two.

16. Kerala shall designate and retain until Project completion, the following key implementation staff with qualifications and experience satisfactory to the Association: (i) coordinator for participatory forest management, (ii) coordinator for silviculture research, (iii) Project coordinator in KFDC, (iv) coordinator for homestead forestry, (v) coordinator for ecodevelopment program, (vi) coordinator for biodiversity conservation program, and (vii) coordinator for fire management program.

17. Kerala shall ensure that the Project Cell remains adequately staffed during Project implementation.

18. Kerala shall select the NGOs assisting in the implementation of the Project in accordance with criteria agreed with the Association.

19. (a) Kerala shall not carry out any involuntary relocation for any of the communities or individuals resident within the PAs under Part C of the Project.

(b) Any proposals for voluntary relocation of such communities or individuals shall be:

(i) preceded by an independent study to assess the impact of such communities on the conservation of biodiversity in such PAs;

(ii) prepared and implemented, in accordance with criteria agreed with the Association, and after prior approval of the Association;

(iii) monitored by an independent agency acceptable to the Association.

## SCHEDULE 2

### Procurement and Consultants' Services

#### Section I. Procurement of Good and Works

##### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and September 1997 (the Guidelines) and the following provisions of Section I of this Schedule.

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for the purchase of goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Equipment and materials estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$800,000 equivalent, and vehicles estimated to cost less than \$100,000 equivalent per contract up to an aggregate amount not to exceed \$300,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost up to an aggregate amount not to exceed \$500,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Equipment and materials estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$2,500,000 equivalent, and vehicles estimated to cost less than \$50,000 per contract, up to an aggregate amount not exceeding \$1,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraph 3.5 of the Guidelines.

3. Direct Contracting

Maps, aerial photography, satellite imagery costing \$1,700,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement of Small Works

Works (excluding forestry works) under Parts A, B (except B 2) and C of the Project estimated to cost \$100,000 equivalent or less per contract, up to an aggregate amount not to exceed \$3,400,000 equivalent, and works under Part B 2 of the Project estimated to cost up to an aggregate amount of \$2,800,000, may be procured either (i) under lump-sum, admeasurement contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully, or (ii) under community participation provision, with village communities or NGOs, in accordance with the provisions of paragraph 3.15 of the Guidelines, and with the Association's prior agreement, or (iii) with prior approval of the Association through force account in accordance with the provisions of paragraph 3.8 of the Guidelines and procedures satisfactory to the Association.

5. Force Account

Forestry works under Parts B 4, B 5 and B 6 of the Project which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$2,000,000 equivalent or less in the aggregate may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

6. Community Participation

Forestry works under Part B of the Project (other than those carried out under paragraph 5 above) and forestry works under Part C of the Project estimated to cost up to an aggregate amount not to exceed \$15,200,000 equivalent shall be procured through community participation procedures in accordance with paragraph 3.15 (iii) of the Guidelines and the Forest Schedule of Rates, in a manner satisfactory to the Association.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for goods or works, estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts for goods and the first two contracts for works estimated to cost less than \$200,000 equivalent but more than \$20,000 equivalent, the following procedures shall apply: (A) prior to the selection of any supplier or contractor, KFD shall provide to the Association a report on the comparison and evaluation of quotations received; (B) prior to the execution of any such contract, KFD shall provide to the Association a copy of the specifications and the draft contract; and (C) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 2.13 through 2.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for technical assistance or training under the Project estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services for technical assistance estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Consultants' or NGOs services for technical assistance which are estimated to cost less than \$100,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.



3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms for technical assistance or training estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms for technical assistance or training estimated to cost the equivalent of \$50,000 or more, but less than the equivalent of \$100,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

